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Walgreen

DRUG STORES

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WALGREEN CO. (An Illinois Corporation) AND SUBSIDIARY COMPANIES  
ANNUAL REPORT TO STOCKHOLDERS—SEPTEMBER 30, 1944



# Walgreen

DRUG STORES

November 22, 1944.

## TO OUR STOCKHOLDERS:

Earnings per share of common stock were \$2.25 after a \$600,000 provision for post-war contingencies, for the year just closed. For the previous year the figures were \$2.20 and \$500,000, respectively. The total of our reserve for post-war contingencies is now \$1,100,000; its purpose the general one indicated by its title. One example of the advisability of having such a reserve is our post-war remodelling program. It was always our practice to improve, remodel and enlarge a certain number of our stores each year, as well as to open some new ones. Only a portion of the costs of doing this was represented by actual fixtures and equipment, charged to capital accounts. Our policy is to charge off all the other costs against earnings of the current year, and in five years preceding the war such costs averaged more than a quarter of a million dollars. During the war we have maintained our stores as well as conditions would permit. However after the war we plan a modernization program, which means a substantial number of renovations, remodellings and enlargements, as well as the addition of new units. The costs of such a program might unreasonably lessen our earnings during the immediate post-war years unless a reserve were accumulated during this period when we cannot make these expenditures. Our post-war reserve strengthens our Company's present financial position and its use will even further strengthen our post-war trade position, and should make later years increasingly profitable.

Late in August we presented to stockholders our plan for exchanging our Preferred stock. In September we were authorized to proceed with it. The operation was completely successful, and on October 6 we declared the plan effective and called all unexchanged 4½% shares for redemption November 9. The new 4% stock has been listed on the New York Stock Exchange. The financial statements which are included in this report are as of September 30 and therefore do not reflect the change in capitalization. After giving effect to it, our Company remains in a very

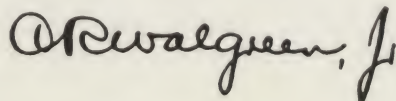
strong financial position, with no liabilities except the usual current accounts and accruals for taxes and similar items, and with cash and U. S. "Tax Notes" far in excess of the total of all liabilities. All of the 4½% Cumulative Preferred stock shown on the balance sheet in this statement has been retired. The only capitalization now ahead of our Common stock is \$6,500,000 of 4% Cumulative Preferred stock. A substantial saving has been accomplished which will be of continuing future benefit to Common stockholders.

During the fiscal year recently ended, your Company purchased for its own account, for sale to its officers and employees under payroll deduction plans, and for sale to the public across its counters, well over twenty million dollars in U. S. Bonds, Notes and Stamps. The untiring efforts of many volunteer workers, of women's community organizations, and of our own people, are gratefully acknowledged.

Since our last annual report, twenty small stores were eliminated, two stores were relocated and two desirable ones were purchased. At the end of the fiscal year we were operating 442 units with sales the largest in our history.

Our Company has always believed in the value of employee training programs. Unfortunately for our customers, as well as for our employees themselves, it has been necessary to discontinue these programs because of personnel shortages, common to all retailers. In many instances there is a lack of our pre-war standard of service, which is the result of our having so many untrained new employees taking over for those in our armed forces. We plan to put educational programs into effect again as soon as possible. I wish to express appreciation to our store managers and experienced employees for the splendid job they are doing under difficult conditions.

Yours very truly,

A handwritten signature in cursive script, reading "A. Walgreen, Jr." The signature is written in dark ink and is positioned above the printed name.

*President.*

ARTHUR ANDERSEN & CO.

120 South La Salle Street  
Chicago 3

To the Board of Directors,  
Walgreen Co.:

We have examined the consolidated balance sheet of WALGREEN CO. (an Illinois corporation) AND SUBSIDIARY COMPANIES as of September 30, 1944, and the statements of consolidated profit and loss and surplus accounts for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related statements of consolidated profit and loss and surplus accounts present fairly the position of Walgreen Co. and subsidiary companies as at September 30, 1944, and the results of their operations for the fiscal year ended that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Arthur Andersen & Co.*

Chicago, Illinois,  
November 17, 1944.

**WALGREEN CO. AND S**  
**CONSOLIDATED BALANCE SHEETS—SEPT**

**A S S E T S**

	September 30	
	1944	1943
<b>CURRENT ASSETS:</b>		
Cash .....	\$ 9,939,412	\$ 8,580,312
United States Treasury tax notes and bonds .....	7,450,881	5,353,333
Accounts receivable, less reserves .....	790,078	750,727
Inventories of merchandise, priced at the lower of cost or market; based on physical inventories taken continuously throughout the year .....	15,153,670	16,205,994
<b>TOTAL CURRENT ASSETS</b> .....	<b>\$33,334,041</b>	<b>\$30,890,366</b>
<b>PREPAID RENT (including advances to lessors), INSURANCE, TAXES, ETC.</b> .....	<b>\$ 681,747</b>	<b>\$ 800,280</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>		
Postwar excess profits tax credit .....	\$ 290,000	\$ 500,000
Investments in and advances to affiliated and lessor real estate companies .....	428,163	676,412
Stocks and bonds of other companies, at cost .....	443,981	339,391
Notes and accounts receivable, less reserves .....	145,193	138,424
<b>TOTAL INVESTMENTS AND OTHER ASSETS</b> .....	<b>\$ 1,307,337</b>	<b>\$ 1,654,227</b>
<b>FIXED ASSETS:</b>		
Cost—		
Land .....	\$ 388,973	\$ 396,881
Buildings (including buildings on leased land) .....	1,338,970	1,684,161
Equipment .....	10,312,348	11,035,932
	\$12,040,291	\$13,116,974
Less—Reserves for depreciation .....	6,584,622	6,530,876
	\$ 5,455,669	\$ 6,586,098
Short life equipment, at cost, less amortization .....	188,448	353,316
<b>TOTAL FIXED ASSETS</b> .....	<b>\$ 5,644,117</b>	<b>\$ 6,939,414</b>
<b>GOODWILL, LEASEHOLDS, LEASEHOLD IMPROVEMENTS, ETC., at nominal amount</b> .....	<b>\$ 1</b>	<b>\$ 1</b>
	<b>\$40,967,243</b>	<b>\$40,284,288</b>

**NOTE:**

Subsequent to September 30, 1944, pursuant to prior authorizations by directors and shareholders, (1) 65,000 shares of new 4% Cumulative Preferred Stock (\$100 par value) were issued, together with \$3.00 per share in cash, in exchange for a like number of shares of 4½% Cumulative Preferred Stock to be retired and cancelled, (2) 29,225 shares of 4½% Cumulative Preferred Stock were redeemed in cash, for retirement and cancellation, and (3) 5,775 shares of 4½% Cumulative Preferred Stock held in Treasury were retired and cancelled. The foregoing transactions re-

# SUBSIDIARY COMPANIES

SEPTEMBER 30, 1944 AND SEPTEMBER 30, 1943

## LIABILITIES

	September 30	
	1944	1943
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 3,161,249	\$ 3,769,715
Employees' investment certificates	116,700	111,280
Accrued payrolls, rentals and other expenses	783,214	852,667
Accrued taxes other than Federal taxes on income	1,092,160	915,669
Provision for Federal taxes on income	6,752,638	7,016,396
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$11,905,961</b>	<b>\$12,665,727</b>
RESERVE FOR POSTWAR CONTINGENCIES	\$ 1,100,000	\$ 500,000
<b>CAPITAL STOCK AND SURPLUS (see note):</b>		
Preferred stock, 4½% cumulative, par value \$100 per share; redeemable on call or in voluntary liquidation at \$104.00 per share—		
Authorized and issued, 100,000 shares	\$10,000,000	\$10,000,000
Common stock without par value—		
Authorized 1,955,522 shares; issued and outstanding, 1,292,485 shares	11,484,112	11,484,112
Earned surplus, per accompanying statement (restricted by an amount equal to two years' dividends on preferred stock and, under the Illinois Business Corporation Act, to the extent of the cost of the treasury stock)	6,988,357	6,145,636
	<u>\$28,472,469</u>	<u>\$27,629,748</u>
Deduct—Preferred stock held in treasury (5,775 shares), at cost	511,187	511,187
	<u>\$27,961,282</u>	<u>\$27,118,561</u>
	<u>\$40,967,243</u>	<u>\$40,284,288</u>

sulted in an aggregate cash payment of \$3,234,400, and in a net charge of \$245,587 to earned surplus.

The new 4% Cumulative Preferred Stock is redeemable on call or in voluntary liquidation at premiums varying from \$4.00 to \$1.00 per share. If available, a minimum of 1,000 shares must be purchased yearly for retirement at not less than par nor more than current redemption price, and whenever the accumulated number of shares so purchasable shall exceed 5,000, any such excess must be redeemed.

# WALGREEN CO. AND SUBSIDIARY COMPANIES

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the Years Ended September 30, 1944 and September 30, 1943

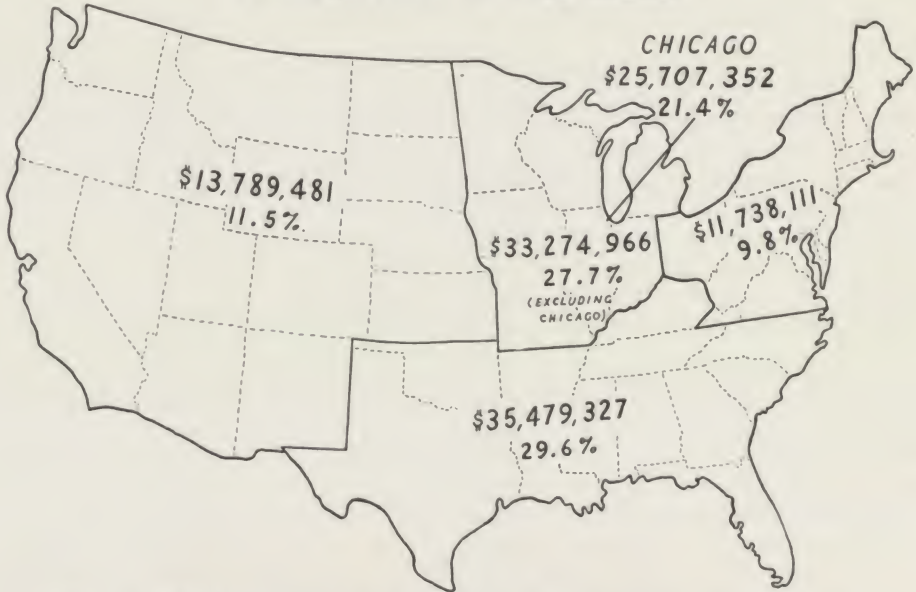
	Years Ended September 30	
	1944	1943
NET SALES, after deduction for sales and excise taxes, returns, etc. ....	\$ 119,989,237	\$ 112,204,121
COST OF SALES .....	75,633,204	69,582,980
Gross profit on sales .....	\$ 44,356,033	\$ 42,621,141
OTHER OPERATING INCOME .....	351,604	423,624
Total .....	\$ 44,707,637	\$ 43,044,765
OPERATING EXPENSES:		
Selling, advertising and occupancy .....	\$ 32,996,908	\$ 31,602,915
General and administrative .....	1,066,357	984,018
Total .....	\$ 34,063,265	\$ 32,586,933
Profit from operations .....	\$ 10,644,372	\$ 10,457,832
OTHER INCOME:		
Interest and dividends received .....	\$ 168,421	\$ 130,150
Miscellaneous (net) .....	396,471	218,571
Total .....	\$ 564,892	\$ 348,721
OTHER CHARGES:		
Improvements to leased properties .....	\$ 33,097	\$ 9,149
Losses and write-downs on real estate and real estate investments (net) .....	206,253	171,340
Lease cancellation payments and expenses (net) .....	257,005	157,118
Capital stock, State income and franchise taxes .....	270,215	263,427
Provision for contribution to Charles R. Walgreen Memorial Pension Trust for employees .....	458,000	391,000
Total .....	\$ 1,224,570	\$ 992,034
Balance .....	\$ 9,984,694	\$ 9,814,519
PROVISION FOR FEDERAL TAXES ON INCOME:		
Normal tax and surtax .....	\$ 1,800,000	\$ 1,790,000
Excess-profits tax (less postwar credits of \$476,000 for 1944 and \$500,000 for 1943; portions used as current credits because of intercompany debt retirement) .....	4,250,000	4,255,000
Total .....	\$ 6,050,000	\$ 6,045,000
Net profit before provision for postwar contingencies .....	\$ 3,934,694	\$ 3,769,519
PROVISION FOR POSTWAR CONTINGENCIES .....	600,000	500,000
Net profit after provision for postwar contingencies .....	\$ 3,334,694	\$ 3,269,519
NOTE: Net profit above is after provision for—		
Depreciation of buildings and equipment .....	\$ 985,544	\$ 1,199,223
Amortization of short life equipment .....	495,792	429,269



**WALGREEN CO. AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED EARNED SURPLUS ACCOUNT**  
For the Years Ended September 30, 1944 and September 30, 1943

	Years Ended September 30	
	1944	1943
BALANCE BEGINNING OF YEAR .....	\$ 6,145,636	\$ 5,368,088
NET PROFIT AFTER PROVISION FOR POSTWAR CONTINGENCIES .....	3,334,694	3,269,519
	<u>\$ 9,480,330</u>	<u>\$ 8,637,607</u>
<b>DIVIDENDS PAID:</b>		
On 4½% preferred stock (\$4.50 per share) .....	\$ 423,997	\$ 423,995
On common stock (\$1.60 per share) .....	2,067,976	2,067,976
	<u>\$ 2,491,973</u>	<u>\$ 2,491,971</u>
BALANCE END OF YEAR .....	<u>\$ 6,988,357</u>	<u>\$ 6,145,636</u>

**DISTRIBUTION OF NET SALES**



As a stockholder, you are interested in the progress of your company. Our stores are convenient. They sell a very wide variety of merchandise, including our own preparations, which are of unsurpassed quality. We solicit your increased patronage—on the very practical ground of your own interest, both as a stockholder and as a customer.

## OFFICERS AND DIRECTORS

CHARLES R. WALGREEN, JR.....	<i>Director—President</i>
SANFORD J. BOWYER.....	<i>Director—Vice President</i>
HARRY GOLDSTINE.....	<i>Director—Vice President</i>
WILLIAM G. JOHNSTON.....	<i>Director—Vice President</i>
ROBERT G. KNIGHT.....	<i>Director—Vice President and Treasurer</i>
ROLAND G. SCHMITT.....	<i>Director—Vice President and Secretary</i>
A. L. STARSHAK.....	<i>Director—Vice President</i>
RAY E. WALKER.....	<i>Director—Agency Division</i>
JAMES E. WARD.....	<i>Director—Vice President</i>
BERT O. PINCH.....	<i>Assistant Secretary</i>
O. G. GILE.....	<i>Assistant Secretary</i>
P. J. REDFORD.....	<i>Assistant Secretary</i>
W. J. COONEY.....	<i>Assistant Treasurer</i>

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## TRANSFER AGENT

In Chicago	FIRST NATIONAL BANK
In New York	GUARANTY TRUST CO.

## REGISTRARS

In Chicago	COMMERCIAL NATIONAL BANK & TRUST CO.
In New York	HARRIS TRUST & SAVINGS BANK

## AUDITORS

ARTHUR ANDERSEN & Co., CHICAGO



